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ENERGY FOR EKIMOFF
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TAGS: [EPET](#) [ENRG](#) [ECON](#) [PREL](#) [KZ](#)
SUBJECT: KAZAKHSTAN: CHEVRON FACES THE SQUEEZE AT TENGHIZ
AND KARACHAGANAK

Classified By: AMBASSADOR JOHN ORDWAY FOR REASONS 1.4(B) and (D)

11. (C) Summary: Chevron executives Guy Hollingsworth and James Johnson told the Ambassador on January 11 that Chevron is facing "sanctity of contract" issues at its two most significant fields in Kazakhstan, Tenghiz and Karachaganak. Earlier in the day, the two had warned Prime Minister Masimov that Chevron views as unacceptable new fees levied at Karachaganak for permitted (rather than actual) emissions and at Tenghiz for sulphur storage. Nevertheless, they affirmed that Tenghiz continues to be extremely productive (and profitable), and informed the Ambassador of plans to build a joint Kazakhstan-Chevron pipeline. End Summary.

12. (C) Guy Hollingsworth, President for Chevron Eurasia, Europe and Middle East Exploration and Production, and James Johnson, Chevron Eurasia Strategic Business Unit Managing Director, told the Ambassador on January 11 that Chevron is experiencing "sanctity of contract" problems at Tenghiz and Karachaganak. At Tenghiz, Tenghizchevroil has been charged \$309 million dollars to store sulfur. Tenghizchevroil, they said, has a contractual right to store sulfur without cost.

13. (C) The Karachaganak consortium, where Chevron is a non-operating partner, is also facing unjustifiable fees, they said. Hollingsworth reported that the consortium developing the field has reduced emissions under the operatorship of British Gas. Now, he said, the Kazakhstanis are trying to charge the consortium for permitted emissions, rather than actual. The consortium has refused to pay the extra costs. The Kazakhstanis have in turn frozen the consortium's bank accounts.

14. (C) Prior to speaking with the Ambassador, Johnson and Hollingsworth had met with Prime Minister Masimov and told him that Chevron is extremely concerned with the situations at Karachaganak and Tenghiz. Chevron can't do business in such an environment, they warned. They also told Masimov that it is in no one's interest, least of all Kazakhstan's, to go to the courts.

15. (C) The \$300 million sulfur storage fee, noted Hollingsworth, is small pittance for Kazakhstan when compared to the country's overall earnings from Tenghiz. Hollingsworth estimated that Tenghiz generated \$3 billion in revenue for Kazakhstan in 2007, to jump to \$8 billion by the time of first expansion later this year and to \$16

billion
by final expansion. Hollingsworth and the ambassador agreed that most often the extra fees levied on foreign companies at places like Tenghiz and Karachaganak are generated by regional officials, because the money goes to local budgets. Johnson said that actions at Tenghiz indicate that Kazakhstan is trying to change the contract for Tenghiz.

16. (C) Hollingsworth informed the Ambassador of plans to build a pipeline to deliver Tenghiz crude to the Caspian. According to Hollingsworth, Chevron approached Timur Kulibayev one year ago with the pipeline idea, motivated by increased production at Tenghiz and near-maximized rail capacity. Kulibayev said no on a pipeline, but promised to bring Chevron in to the Kazakhstani Caspian Transportation System (KCTS). Chevron, however, has been unable to join KCTS. In December, Chevron again raised the pipeline with Kulibayev, with Kulibayev this time agreeing. The pipeline will be a joint Chevron-Kazakhstan project, with no other partners and Kazakhstan as the builder and operator. Chevron will hold 25% and provide some technical assistance during the construction phase. (Comment: In a January 11 meeting with Senator Lugar, Prime Minister Masimov confirmed that Kazakhstan is in talks with Chevron with about building a pipeline. Masimov and the Chevron representatives also offered a similar message on reports of CPC expansion - both said that problems still remain. End comment.)

7 (C) Comment: Chevron maintains a very healthy relationship with the Government of Kazakhstan. Nevertheless, its problems at Karachaganak and Tenghiz demonstrate that even the strongest ties to Astana do not currently guarantee absolute protection

from arbitrary actions by regional authorities, or by less progressive members of the GOK. Chevron has an enviable track record of using its long-standing positive relationships, coupled by very judicious use of threats to shut down production, to resolve its problems. With the Tenghiz revenue stream about to explode and the GOK getting 70% of each additional dollar in the rise of the price per barrel, there should be little stomach in Astana to kill the California goose that is laying ever bigger golden eggs for the GOK. End Comment.
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